

Capital Budget

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Capital Investment Plan

The Commonwealth's five-year capital investment plan is updated annually after the operating budget has been released. Under Governor Patrick's leadership, the Executive Office for Administration and Finance now develops a five-year Capital Investment Plan in conjunction with an annual debt affordability analysis to help ensure Massachusetts continues to borrow responsibly.

The current FY 2013-2017 plan implements the vision and priorities established in each of the Patrick-Murray Administration's first five plans. In large part, the investments included in FY 2013-2017 plan continue projects launched in prior years or commence projects anticipated by the prior five-year plans. Over 80 percent of the bond-funded FY13 capital investment plan is needed to fund previously-made commitments, including ongoing construction contracts, investments needed to leverage federal funds, legal commitments and personnel needed to carry out capital programs.

As with the prior capital plans, the Administration engaged in a diligent, fiscally responsible, and comprehensive process for developing this five-year capital investment proposal. One common challenge each year is that demand for capital improvements far exceeds affordable funding capacity. The inevitable consequence is that many worthy projects will not receive funding.

In order to establish the total amount of the bond-funded capital program within an affordable level, the Administration conducts a rigorous review of the Commonwealth's debt capacity within its debt affordability policy. The debt affordability analysis underlying the FY 2013-2017 capital investment plan can be found at <http://www.mass.gov/bb/cap/fy2013/exec/hdebtaffordability.htm>. In part due to the Patrick-Murray Administration's diligence in following the debt affordability analysis, the state presently has ratings of Aa1 from Moody's and AA+ from Fitch and Standard & Poor's. Taken together, these ratings give Massachusetts its highest credit standing in history.

Highlights of the FY 2013 Capital Investment Plan

The Patrick-Murray Administration's capital investment plan is designed to reverse decades of underinvestment, create jobs and set the stage for a better economic future. This is accomplished by investing in public higher education, supporting innovation industries and strengthening infrastructure.

The FY 2013 Capital Investment Plan continues the Administration's efforts to create an affordable, accessible public higher education system, by committing \$1.16 billion in programmed projects and over \$100 million reserved for future projects or deferred maintenance over five years. In FY 2013, the Administration strengthened its commitment to community colleges by announcing five new community college projects which will provide students with strong educational foundations and relevant workforce training opportunities that will prepare them for success in the local job market and/or further academic study. Additionally, projects are currently underway or completed at 26 of the 29 public university campuses, including laboratory facilities at the University of Massachusetts (UMass) Boston, UMass Lowell, UMass Amherst, Bridgewater State, Fitchburg State, Framingham State and Mass College of Liberal Arts; libraries at UMass Dartmouth, Salem State and Mass Maritime Academy; and classrooms at UMass Amherst and UMass Boston.

The Patrick-Murray Administration's commitment to innovation industries continues with \$500 million of capital investment over ten years to support the life sciences. This investment includes the completion of the Sherman Center at the University of Massachusetts Medical School in Worcester, University of Massachusetts Dartmouth's Biomanufacturing facility, and the Dana-Farber Cancer Institute.

Through capital investment the Patrick-Murray Administration has strengthened infrastructure by repairing or replacing aging state facilities, roads and bridges and providing broadband communication to the 123 cities and towns in Massachusetts that previously did not have high-speed internet.

The Accelerated Bridge Program has reduced the number structurally-deficient bridges by almost 20%, and created 17,000 jobs throughout the state. In the FY 2013-2017 Capital Investment Plan, the Administration applies the same approach to energy efficiency at state facilities. The new Accelerated Energy Program is a three-year initiative to “green” 700 sites in 700 working days encompassing over 4,000 state buildings throughout the Commonwealth. This program will create thousands of clean energy job opportunities across the Commonwealth and save over \$40 million annually through the conservation of energy and water.

Please note that the FY 2013-2017 Capital Investment Plan was published in October of 2012 and has not been updated to reflect the Administration’s proposal to increase the transportation capital investment by \$13 B over the next ten years to create a state-of-the-art transportation network that is able to provide fast and reliable service while attracting and supporting sustainable economic growth in the future. The program budget includes FY 2014 capital spending as projected by the FY 2013-2017 Capital Investment Plan, and similarly does not include the proposed transportation investment.

The FY 2013-2017 plan continues strategic investments in the future by creating thousands of new jobs and improving the environment for economic growth. Examples of projects included in the FY 2013-2017 plan:

- \$5.4 million in FY 2013 for the Springfield Union Station Parking Garage which will be constructed in conjunction with the proposed development of the Union Station Regional Intermodal Transportation Center, a \$45 million project with multiple funding sources; and
- \$227 million in FY 2013 for statewide road and bridge projects, including a state match to \$415 million in federal funds; and
- Funding for the relocation of inmates at the Middlesex Sheriff facility located in the Edward J. Sullivan Courthouse in Cambridge, which will allow for the closure and redevelopment of this property; and
- Funding awards for MassWorks public infrastructure projects which currently includes:
 - Construction of the new MBTA station at Assembly Square;
 - Reconstruction of Acushnet Avenue in New Bedford; and
 - Roadway infrastructure to support the redevelopment of the Ludlow Mills,
 - Roadway and utility improvements to strengthen security for the entry way of the US Army Natick Soldier Systems Center (NSSC), and many others.
- I-Cubed projects at Assembly Square in Somerville and Fan Pier in Boston which are expected to leverage \$1 billion in private investment and create over 1,000 construction and 2,000 permanent jobs; and
- \$29 million in FY 2013 for the development of the New Bedford Marine Commerce Terminal, a unique seaport facility which will provide a staging ground for the development of offshore wind and spur hundreds of jobs on the South Coast of the Commonwealth; and
- \$51 million for the Green Line extension project in FY 2013;
- A \$3 million increase in FY 2013 in the Commonwealth’s investment in Public Housing Energy and Water Savings Initiatives which will produce energy, water and/or maintenance cost savings that allow Local Housing Authorities to reduce operating subsidy or reallocate operating dollars to needed preventive maintenance; and
- \$14.6 million in FY 2013 for IT projects to implement health care cost containment and child welfare information initiatives including converting to the federally mandated ICD-10 diagnostic coding system, implementing a new eligibility determination system, completing the federally mandated analysis for the Medicaid Information Architecture and replacing the existing FamilyNet child welfare system

The full five-year Capital Investment Plan can be found at www.mass.gov/capital. The charts below show the plan’s investments by major investment categories for each of the five fiscal years covered by the

plan funded only from state bond proceeds or “bond cap” and funded from all anticipated sources of capital funding. Note that FY 13 includes \$93 million in unused capacity from the prior fiscal year. The Administration has conservatively constrained the bond cap in FY 16 and FY 17 at the FY 15 level. Future debt affordability analysis may show sufficient revenue growth to allow increased bond cap in future plans.

FY2013-2017 Capital Investment Plan
Total Bond Cap (In thousands)

	FY13	FY14	FY15	FY16	FY17	Five Year Total	% of 5-Year Total
Community Investments	291,743	285,456	277,117	273,286	273,212	1,400,813	14%
Corrections	37,384	55,350	56,500	63,500	76,500	289,234	3%
Courts	20,170	75,874	127,674	147,674	114,168	485,558	5%
Economic Development	138,240	128,920	138,500	150,000	148,000	703,659	7%
Energy And Environment	167,141	159,329	114,179	86,346	87,346	614,340	6%
Health And Human Services	27,582	37,615	69,575	75,400	102,000	312,172	3%
Higher Education	177,420	259,928	293,172	287,700	281,900	1,300,121	13%
Housing	179,500	169,500	169,500	169,500	169,500	857,500	8%
Information Technology	174,380	101,973	118,822	120,897	119,614	635,685	6%
Public Safety	28,083	37,530	66,780	66,930	51,180	250,503	2%
State Office Buildings	73,553	64,103	72,835	58,951	68,056	337,497	3%
Transportation	652,959	624,423	620,348	624,817	633,525	3,156,072	31%
Total Bond Cap	1,968,155	2,000,000	2,125,000	2,125,000	2,125,000	10,343,155	

FY13-17 Capital Investment Plan
Total All Sources (In thousands)

	FY13	FY14	FY15	FY16	FY17	Five Year Total	% of 5-Year Total
Community Investments	322,719	314,847	304,517	300,286	300,612	1,542,980	9%
Corrections	37,384	55,350	56,500	63,500	76,500	289,234	2%
Courts	20,170	75,874	132,674	162,674	119,168	510,558	3%
Economic Development	188,153	153,920	163,500	175,000	173,000	853,573	5%
Energy And Environment	266,791	287,279	221,129	143,296	132,546	1,051,040	6%
Health And Human Services	30,982	40,000	88,600	103,600	106,000	369,182	2%
Higher Education	247,720	326,071	309,872	290,700	285,400	1,459,763	9%
Housing	179,500	169,500	169,500	169,500	169,500	857,500	5%
Information Technology	236,744	210,945	177,923	177,040	139,811	942,462	6%
Public Safety	39,923	51,730	72,577	66,930	51,180	282,340	2%
State Office Buildings	73,553	64,103	72,835	58,951	68,056	337,497	2%
Transportation	1,630,874	1,776,138	1,686,300	1,647,732	1,430,563	8,171,607	49%
Total Bond Cap	3,274,513	3,525,755	3,455,925	3,359,209	3,052,335	16,667,737	

Many of the projects funded in FY 2013 are multi-year projects with costs that will be incurred in subsequent fiscal years; these projected future costs have been taken into account in making investment category reservations for future years. Projects will evolve and change, and the Executive Office for Administration and Finance (ANF) intends to adjust the capital plan during the fiscal year as circumstances dictate. ANF will also undertake a formal reassessment of capital investment needs to develop an annual update to the five-year capital plan. The Administration plans to update and publish a new five-year capital investment plan with specific projects identified in FY 2014 after the new fiscal year.

Affordability and Fiscal Responsibility

The Commonwealth's capital budget is separate and distinct from the annual operating budget. The capital budget is funded mainly by borrowing through the issuance of bonds. Other sources of funding for the capital budget include federal funds, primarily to reimburse transportation infrastructure improvements and other sources of funding available to finance certain capital investment projects.

Because the capital program is funded primarily through bond proceeds, the total size of the capital program is determined primarily by the amount of debt the Commonwealth can afford to issue. Annually, ANF has established what is known as the "bond cap" as an administrative guideline for annual bond issuance in support of the capital program. For the sixth consecutive year, the Patrick-Murray Administration engaged in a rigorous analysis of the state's outstanding debt to determine the affordable level of bond issuance. A complete description of the Administration's debt affordability analysis and policy can be found at <http://www.mass.gov/bb/cap/fy2013/exec/hdebtaffordability.htm>.

For purposes of its analysis of existing payment obligations, ANF takes into account both debt service on general obligation bonds and debt service on certain special obligations, contract assistance obligations and certain capital lease payments. Although the Accelerated Bridge Program is being carried out in addition to the regular capital program in order to achieve savings from avoided cost inflation and deferred maintenance and to achieve the other objectives of the program, the debt service resulting from the program is also taken into account within the 8% limit under the debt affordability analysis.

The Administration takes a conservative approach to projecting future budgeted revenues, basing its growth estimate on the lesser of 3% or the actual compound annual growth rate of the Commonwealth's revenues over the last 10 years, which included both economic booms and downturns. ANF models future debt issuance using fiscally conservative assumptions about interest rates, maturities, dates of issuance and market conditions.

The Patrick-Murray Administration intends to limit the total amount of virtually all future bond-funded capital projects to the bond cap. However, there are certain, limited circumstances in which the Administration plans to undertake borrowing outside the bond cap when there is a sound policy justification for doing so. For example, if there are certain projects for which a dedicated stream of new, project-related revenues can be identified to support debt service costs related to those projects.

The debt affordability analysis methodology is based on the Commonwealth's current available financing resources and mechanisms. Changes in financing structures and resources in the future may impact how the Administration examines the administrative bond cap and the state's capacity for additional borrowing. The Administration revisits the debt capacity and affordability analysis every year, revising its estimates for future years by taking into account fluctuations in interest rates, budgeted revenues and other changes impacting the Commonwealth's debt capacity. In addition, the Administration will annually assess the appropriateness of the methodology and constraints for establishing the bond cap described above. The complete Debt Affordability Analysis can be found online at <http://www.mass.gov/bb/cap/fy2013/exec/hdebtaffordability.htm>

Impact of Capital Budget on the Operating Budget

Each year, as part of the annual development of the capital investment plan, the Executive Office for Administration and Finance evaluates the operating budget impacts for all requested projects. This year the Administration has taken steps to better evaluate the impact of capital investments on the operating budget. Starting in FY 13, before investing in new IT projects, a private IT investment consultant will forecast the project's return on investment and long term operating impact.

Every state government capital spending request must show the incremental on-going annual operating costs/savings that are expected to be incurred upon completion of the project. Decisions on whether to

fund the capital projects depend on A&F's assessment of not only the programmatic need for the project, but also the affordability of the related operating costs. The following capital budget construction projects are expected to result in an FY13 operating budget impact that exceeds \$500,000 per year:

- Hampden Sheriff's Department - Western MA Women's Correctional Facility
- New Middlesex Courthouse Project
- Greenfield Trial Court Project
- Worcester Recovery Center and Hospital
- Worcester State University - Wellness Center
- Framingham State University Hemenway Hall Science Center Modernization
- Bridgewater State University - Conant Building Modernization
- UMass Lowell - South Campus Academic Facilities
- Fitchburg State University - Science Facility Modernization
- UMass Amherst - New Academic Classroom Building
- UMass Amherst - New Laboratory Science Building
- UMass Boston - New Integrated Science Building

In addition, for construction projects that are starting study in FY 2013, those studies will project the operating cost impact and will be reported to A&F over the year. When agencies are preparing their annual budget requests during A&F's spending plan process they are asked that the additional operational costs associated with capital projects are reflected in their projected funding requirements.



Debt Affordability Analysis

The Patrick-Murray Administration's capital investment program continues to be guided by three key principles: (1) affordability, (2) strategic prioritization of capital investments, and (3) transparency. The Commonwealth faces a backlog of needed capital projects; at the same time, it faces the constraints of a challenging, albeit improving, economic climate and a high debt burden. In light of these challenges, it is as critical as ever that the Commonwealth take a disciplined approach to capital budgeting that is guided by the three principles stated above.

The Patrick-Murray Administration is the first Administration to develop a debt affordability analysis and policy to ensure that the amount of debt issued to fund the capital investment program is kept to affordable levels. The debt affordability analysis is formally updated each year. This report is the Administration's sixth publication of the debt affordability analysis and five-year capital investment plan. With respect to strategic prioritization of capital investments, the Patrick-Murray Administration is the first to engage in a thorough process of reviewing and prioritizing capital investment needs and developing a comprehensive five-year capital investment plan within the fiscal constraints prescribed by the debt affordability analysis and policy. Finally, with respect to transparency, the Administration publishes its debt affordability analysis and its five-year capital investment plan (www.mass.gov/eoaf) in order to enhance public understanding of the Commonwealth's capital investment program and thereby improve public discourse and accountability with respect to the capital budget.

This debt affordability analysis addresses the first of the key principles guiding the Administration's approach to capital budgeting – affordability. The debt affordability analysis detailed below represents the analysis published in October 2012. The Administration will continue to update this analysis at least annually to inform its annual capital budgeting process.

In setting the annual administrative bond cap, the Administration has established a policy which sets a cap that will ensure debt service does not exceed 8% of annual budgeted revenues. By keeping total annual debt service within this limit, the Administration will be able to maximize needed capital investments while ensuring that debt service levels remain affordable.

For purposes of constraining growth in debt, the Administration has placed another restriction on its debt capacity model: growth in the annual bond cap for the regular capital program is limited to not more than \$125 million each year (excluding carry forwards of unused bond cap from prior years). This limit will apply even if in some years the actual revenue growth projection provides capacity to issue a greater amount of debt. This additional constraint ensures stable and manageable growth and avoids taking on an unaffordable long-term debt burden on the basis of unusually robust short-term revenue growth.

In addition to reflecting the current fiscal environment, it is important that the debt affordability analysis continue to be based in part on longer-term, historic trends rather than simply being reactive to current economic conditions. Trends reflecting experience over time are particularly relevant in the context of evaluating the affordability of long-term debt issued to fund investments in long-lived capital assets pursuant to a multi-year capital investment plan.

This debt affordability analysis is consistent with the basic analytical approach presented in the debt affordability analyses published previously. All of the underlying assumptions have been reviewed and, where appropriate, updated to reflect new information and revised outlooks.

Based on the debt affordability analysis and policy, the Administration has set the annual borrowing limit - or "administrative bond cap" - to fund the Commonwealth's regular capital budget for fiscal year 2013 at \$1.875 billion. This is the same bond cap level for fiscal year 2013 that was projected in the five-year capital investment plan published in November 2011. The Administration has conservatively

constrained the bond cap in FY16 and FY17 at the FY15 level. Future debt affordability analysis may show sufficient revenue growth to allow increased bond cap in future plans. The planned bond cap levels for fiscal years 2013 through 2017, together with the continuation of the planned borrowings for the Accelerated Bridge Program and self-supporting project financings, represent an affordable level of new debt that will allow the Commonwealth to responsibly invest in the general capital infrastructure needs of the state.

